

# **ALTERNATIVE FUNDING: LOOKING BEYOND THE NATION STATE**

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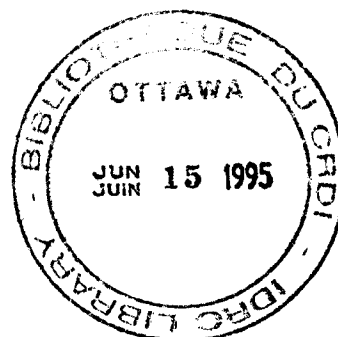
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## ALTERNATIVE FUNDING: LOOKING BEYOND THE NATION STATE<sup>1</sup>

"Rather than trying to pump life back into the worn-out policy of year-to-year decisions by individual governments on how much to appropriate and to whom it should go, what is needed is a flow of funds for development which are generated automatically under international control... The idea... should be treated as an idea whose time has come." From The Planetary Bargain, cited in **Birth of a New World**, Harlan Cleveland (San Francisco: Jossey-Bass, 1993).

The state has become too big for the small things, and too small for the big things. The small things call for delegation downwards to the local level....The big things call for delegation upwards, for coordination between national policies, or transnational institutions." Paul Streeten, quoted in Renewing the United Nations, Erskine Childers and Brian Urquhart: Development Dialogue 1994:1, Dag Hammarskjöld Foundation.

### ***THE FUTURE WILL BE EXPENSIVE<sup>2</sup>: A CASE FOR ALTERNATIVE FUNDING***

The nation-state everywhere faces a crisis of redefinition, a situation that will continue, at least for the foreseeable future. Capital and entire economies are becoming increasingly borderless. Confronted with this economic globalization on the one hand, the nation-state also confronts "globalization from below", to use Richard Falk's term. In order to meet basic economic needs, to preserve local traditions, religious and cultural life, to preserve the natural world and to struggle for human dignity, local citizens' movements and alternative institutions are springing up all over the world. Between these two tidal forces sits the nation-state, beset by demands for action, policy and finances, for the creation of public savings and the distribution of social goods.

Pity the government leaders caught in this vise. Much of the official truth that sustained and guided governments over the past half-century has collapsed and new political visions are in short supply. The most spectacular ideological shift of the past few years has been, of course, the repudiation of communism. In addition, however, the inexorable intrusions of a world economy over which national governments exercise diminishing control have drained other established political wisdoms of meaning and power. Both Keynesianism and Marxism were rooted in the idea that national economies were real and that, within the borders of a nation-state, governments could provide economic stability, development, and social progress. No more.

The entire post-war international institutional system was constructed on those same fast-fading wisdoms surrounding the nation-state. What this means for the United Nations system (in fact for **all** publicly-funded institutions that distribute surpluses for international needs) is that new purposes must be defined and that, if those new purposes are to be met, alternative sources and mechanisms of financing must be established. This is much more than a supplementary requirement; at issue is the survival of internationalism as we have known it for much of this century.

For all the talk about rejuvenating the United Nations system on the occasion of its fiftieth birthday, the prospects are, in fact, not encouraging. Most attention is centred on administrative reform and modifications in the voting structure. The fact, however, is that current institutional arrangements are simply incapable of meeting the needs of a changed global order. The real challenge is nothing less than to devise new global<sup>3</sup> mechanisms for the collection and distribution of the surplus generated in a global economy. Failure to achieve this will, by default, cede authority to the market and the multi-national corporations, many of which already manage large international economic systems. A very real prospect that must be contemplated is one where individual democratic franchise and state sovereignty become subservient to market-driven 'mercantile feudalism'.

The first quotation in this article is drawn from The Planetary Bargain, a publication by an eminent group of international scholars. We agree with their conclusion on the need for funds to be generated automatically under international control and it is to this purpose that this short article is principally addressed. Such funds represent a necessary condition to the institutional arrangements that will be required if mercantile feudalism is to be avoided. We wish to stress in this regard that our concern is not with the financing of the United Nations system, *per se*. It is with the much broader issue of new financing mechanisms for new international purposes.

Indeed, in so far as the UN itself is concerned, it must be prepared to embrace far reaching reform in all aspects of its institutional arrangements as an integral part of its appeal for new sources of financing. This, broadly speaking, applies to all status quo international institutions seeking out new sources of revenue. New objectives (sustainable use of the environment), new definitions of leadership (local action for global results) and new forms of governance (popular participation, establishing links between communities with common interests, increased accountability of technology as a matter of public and social policy), are needed to clear the way to these new sources of financing.

The UN cannot expect enthusiastic support for its access to new sources of funding (nor of more from the conventional sources for that matter) if it draws these into its central treasury. The UN must take note of the attempts of those progressive national governments which, in their efforts to empower their people by decentralizing decision making, or to renegotiate federal arrangements, are ready to limit their role to higher order functions and devolve revenue collection and spending decisions to other levels and other actors. The UN can play a leadership role and will attract support if, when encouraging exploration of the new sources of funding, it makes it clear that it does not make an exclusive claim to such new revenues. On the contrary it must co-ordinate an arrangement designed to prevent mercantile feudalism, including the enabling of groups tasked with international mandates to gain access to new and adequate sources of finance. Peacekeeping and peacemaking, refugees and environmental protection are examples of the specialized areas that might be financed from new sources of money that are facilitated but not centralized within the UN's treasury.

## **THE PAST IS POOR: NATIONAL SOURCES OF FINANCE ARE INADEQUATE FOR GLOBAL NEEDS**

The past half-century has led the citizens of many nation states to expect to enjoy the consumption of public goods, typically financed by taxes and other public charges. At the national level, then, automaticism (as opposed to voluntarism) and other accepted principles of public finance became the guide to the finance and provision of many public goods.

The tendency of the past decade and a half has been towards a minimalist interpretation of when individual governments can and cannot (and should and should not) provide public goods. That same minimalist interpretation has exercised strong influences on perceptions as to what is appropriate at international levels and most certainly with regard to the financing of international institutions.

Yet there is, generally speaking, a strong consensus on an important range of international social goods. Currency stability, for example, is widely seen to be an international social good. Concern is increasing over the globalization of monetary activity which has led to a situation where the volume of activity on the world currency markets exceeds the value of official foreign exchange reserves which are held to bring order to these markets. Clearly, policy coordination at the international level is a first best option to achieve currency stability. In reality, today's challenges in this regard are of a magnitude and complexity never before confronted, requiring especially strong international institutional arrangements.

The minimalist interpretation has served to increase the perception in the public's mind of large and unwieldy international bureaucracies. Whatever the defects of those bureaucracies (and they are both numerous and serious), the fact is that the size and resources of international organizations are hopelessly disproportionate to the issues they must deal with. At a time when more peacekeeping is desired, and forays into peacemaking are being called for; at a time when stemming and reversing desertification, or protection of the ozone layer, or a panoply of other green social goals are thrust upon the international governance system; at a time when the trends of globalization call for more international dialogue and harmonization of practices, not less; at such times, Erskine Childers reminds us, the total number of UN employees worldwide remains less than the number of civil servants employed by the city of Winnipeg, or the number of employees at Saatchi and Saatchi.

Even more spectacular tales may be told of the inadequacy of actual financial resources provided to address public good issues at the international level. This paper, however, is not a plea to expand any particular international organization. Rather, the point being made in what follows is this: the finance and provision of international public goods requires us to think beyond the capacity of individual national governments to deliver them, or manage their delivery. New, innovative, stable, and credible sources of revenue and institutional arrangements are needed if the world is to come to view international public goods in the same manner that it views national public goods.

### **TREASURE TO SHARE: INTERNATIONAL SOURCES OF FINANCE ARE ADEQUATE FOR GLOBAL NEEDS**

Future sources of financing must look beyond the nation-state to the world economy and to global resources. More than ever before, the world is replete with transnational economic activities that depend on global resources. These activities generate increasingly vast streams of income and other benefits which do not accrue through rents or returns to the appropriate factors of production. By tapping a small part of these streams for international purposes, a more logical and efficient allocation of global income could result.

This notwithstanding, debates on this issue have tended to be characterized by high degrees of emotion, by advocacy without substance and by a lamentable absence of research and analysis. The net result is that the issue itself is becoming increasingly polarized between the "reformers" (who argue that taxation and control on transnational economic activities are "necessary" and "moral") and the "minimalists," including an army of neoclassical economists (who argue that all intervention through tax or control would compromise economic efficiencies, distort markets and/or be simply unworkable). On both sides of the argument it is difficult to perceive anything that is not based on personal opinion, appeal to distant authority or undisguised emotion.

The task, we submit, is to move beyond the sterile debate which is occurring, to initiate serious, systematic and scholarly (the three S's) inquiry into possible alternatives. The results of such inquiry should be the subject of detailed public and international discussion.

Although there may be more, we would submit at this time that there are three kinds of financing alternatives that should be accorded priority in policy research. These are: charges for the use of the global commons, monetary measures, and international taxation. In all three cases it is imperative that the criteria for examination involve both the raising of financing for international social goods and the reduction of negative externalities (i.e. negative side effects, such as pollution).

### Costing the Global Commons

The global commons, defined as *res communis* or belonging to all humankind, may be said to include outer space including the geostationary and lower orbits, the electromagnetic spectrum, Antarctica (a disputed common) and the Southern Ocean, international air space and the other oceans (including their seabeds and subsoils). They are important international assets: for instance, the oceans are a source of living and non-living resources, a means of transport, a regulator of the weather and the world's main carbon sink. Outer space and its orbits provide the traffic lanes for geostationary and other satellites, and the lower orbits, which are being cluttered with dangerous space debris, are the gateway to our last frontier. The spectrum serves as a means of international telecommunications. Unfortunately, the commons are being misused or overused, partly because they are still perceived, erroneously, as "free" and unlimited resources. There is a need to manage the global commons and to price and charge for their contributions to the various transnational activities that use them. A logical, efficient and socially responsible allocation of global income and resources should recognize and treat them as an important factor of production.

A system of user rights, regulations, rents and charges is one way of bringing governance to the commons and of using them to generate revenues. Preliminary studies carried out under the auspices of UNEP and the Brookings Institution and by Mendez (independently and as coordinator of UNEP teams),<sup>4</sup> indicate that this is a promising area to explore in the search for viable financing alternatives. Further work, however, is required, including research, the development of methodologies for global collective resources valuation, and legal policy analysis. These are necessary to assess whether any of these possibilities should be pursued and implemented over the near term and, if so, which ones.

### Monetary Reform

The globalization and growth of financial markets, starting in the 1970s, has led to a situation today where over US\$ 1 trillion ( $10^{12}$ ) worth of foreign currencies change hands each day -- and to concern in several quarters, including central banks, over monetary volatility and even meltdown. This has stimulated a renewed interest in taxing foreign exchange transactions: the "Tobin tax," which was first proposed in 1971 by Professor James Tobin of Yale, a Nobel Memorial Laureate in Economics.

There are, unfortunately, formidable difficulties facing a Tobin tax. Among them are that: foreign exchange transactions are generally not registered or supervised and thus leave no paper trail; the creation of a tax regime would entail considerable administrative costs; since a universal and watertight system is improbable, money changers would easily evade the tax by moving "offshore" to low- or zero-tax jurisdictions.

There may, however, be a viable alternative. It stems from the very fact that the present market is disorganized and consists, in actuality, of two markets: an inside interbank market, where competition and the best prices prevail, and the publicly quoted market to which end users -- individuals, industrial corporations, importers and exporters -- have access, but only at inflated prices and via intermediaries. The present pattern thus suffers from a market failure of incomplete information, which the banks are able to exploit with windfall profits.

The alternative, which would tap the same extensive base as the Tobin tax, would be the establishment of a Foreign Currency Exchange. The Exchange would serve the foreign currency markets as national bourses serve securities markets and, through an automated global computer network, would match buy and sell orders electronically. It would thus lower the cost to consumers of changing foreign currencies by giving them competitive prices and access to other buyers and sellers, which they now lack. It would also bring order and efficiency to the present chaotic market and, if properly designed, managed and sponsored, could generate considerable revenues from licensing and user fees from its member traders and customers. While preliminary analyses indicate that this is a viable variation on the Tobin tax, considerable research -- in fact, an in-depth feasibility study -- is needed to analyze the highly complex mechanics of foreign exchange transactions and technical requirements of a computerized system, to estimate costs, revenues and capital requirements, to assess the options for the organization, ownership and management of the system, and possibly to design a system, including the allocation of what could be vast revenues.

### International Taxation

International taxation, applied to transnational activities, is a third means of raising revenues. It is justifiable on the grounds that transnational activities use the global commons, often causing negative externalities such as environmental pollution. Such activities also benefit (without being charged) from global governance provided by the international public sector.

An obvious candidate for international taxation is world trade, in view of its large base -- a volume of US\$ 37,483 billion (as measured by imports) in 1992. There is a need, however, for careful policy research on various issues such as whether rates can be set at levels that would not inhibit trade, or what exemptions or allowances should be made say for re-exports or trade-dependent countries like Singapore. Studies should be made of whether taxes should be limited to specific traded goods (and/or services) and, if so, which, or whether a tax on ocean freight would be preferable. Various legal and administrative questions should also be examined in detail.

There are other possibilities for international taxation -- for correcting market failures as well as for revenues -- that merit further exploration. These include:

- a) activities with negative international externalities such as ocean dumping and other marine pollution, military expenditures and arms transfers;
- b) the compensation of generators of positive externalities, such as the "reverse brain drain," or the protection and enhancement by developing countries of "global" environmental goods like tropical rain forests; and
- c) other alternative measures, such as costly and marketable permits to pollute, charges for fishing rights in certain areas, surcharges on air tickets, and "voluntary" taxes like lotteries. These are all items that should be on the agenda, but they call for careful policy research before any can be advanced to the advocacy stage.

## THE FUTURE CAN PAY ITS WAY

While it is clear that there are a range of new, untapped and potentially rich sources of finance, it is equally clear that the critical factor delaying the uptake of these sources is the need for an acceptable answer to one of the key questions of economics: 'for whose benefit'. Adam Smith's conception of self-interest has mobilized the development/exploitation of conventional sources of wealth: the unconventional sources that we have identified will be developed only when there is a strong, indeed overwhelming, conviction that they will be used in the common interest, that is used to ensure the greatest benefit to the greatest number of people. We are only too conscious of past efforts in this direction and of the taint of any recommendation that invokes Marx. That said, we are reminded of the witticism that 'Communism, like Christianity, was a good idea that was never acted upon'. At the very least we would suggest that earlier attempts at systemic change to ensure economic justice and social harmony may be seen as false starts. Certainly we cannot avoid the implication that only major institutional change at both the national and international level will enable the exploitation of non conventional sources of finance.

Although, *prima facie*, these are attractive, we repeat that research is needed if progress beyond the polemical is to be made on these matters. It is encouraging to learn that researchers and practitioners are engaging the problem from different perspectives. For example the Green Forum's 'People's Earth Fund', a major NGO approach to the issue of alternative financing; and, the 'Environmental Finance Centre of the Coastal and Environmental Policy Program at the University of Maryland' which is researching creative approaches to funding environmental projects and treating finance as part of the strategic management process.

The search for alternative/innovative sources of finance must not be reduced to 'slogans' to stimulate UN reform. They should be approached as innovative ideas, fresh thinking -- embryonic rational constructs that, in this time of uncertainty and crisis, deserve serious intellectual consideration, free of ideological bias and appropriation by self interest.



We associate ourselves with those in the international community who recognise that current efforts to address critical areas of common concern are under funded. Failure to resolve this in the next decade conjures the spectre of a disaster that will cause unprecedented dysfunction for the citizens of rich and poor states alike. For this reason, proposals for new sources of international finance to deal with global problems merit serious and urgent attention. And there is another reason: they offer hope for a renewal of spirit and optimism in the face of an increasing retreat into despair over the status quo in international affairs.

1. The authors gratefully acknowledge the collaboration of Rohinton Medhora and Christopher Smart of the International Development Research Centre in the preparation of this article.

2. UNCED carries a price tag of \$562 billion per year of which \$142 are needed as concessional financing for developing countries. Peacekeeping has suffered from consistently late payments: 1994 budgets should be \$3.3 billion and should grow steadily. One preliminary study (a personal communication to the authors) puts the cost of the UN standing army at \$50 billion per year.

3. *Global* rather than *international* is used here to suggest a future of options beyond the accepted interactions of nations. It invites participation from those who will make their contributions less because of allegiances based on citizenship and more because of their concern for and expert knowledge of the global problems that will only be resolved through co-operation across national frontiers.

4. For instance vide UNEP, *Additional Measures and Means of Financing for the Implementation of the Plan of Action to Combat Desertification* (UNEP/GC.Add.1, 4 April 1978); and *Study on Financing the United Nations Plan of Action to Combat Desertification* (A/35/396, 17 September 1980); also Mendez, R.P., *International Public Finance: A New Perspective on Global Relations* (NY: Oxford Univ. Press, 1992); and *The Provision and Financing of Universal Public Goods* (London: London School of Economics, 1993).